



SENATE

COMMONWEALTH OF PUERTO RICO

José Luis Dalmau Santiago
President

September 26, 2021

Mr. David A. Skeel Esq.
Chairman
Fiscal Oversight Board
Commonwealth of Puerto Rico
San Juan Puerto Rico

Dear Chairman:

I am writing to you as president of the Senate of the Commonwealth of Puerto Rico and as president of the legislative conference of the Popular Democratic Party, the party that controls the legislative branch.

In accordance with the conversations that we have had for the past seven months, I share with you our opinion regarding the content of the debt adjustment plan (POA) that is about to be submitted to the federal court as part of the debt restructuring processes of the Government of Puerto Rico.

As you know, throughout this process, the Senate of Puerto Rico has fully complied with its inherent responsibilities of approving important legislation to advance the debt restructuring process; and, furthermore, to comply with our obligation to be an instrument of conciliation and collaboration with the Fiscal Oversight Board, without renouncing our duty to defend the causes and the best interests of the people of Puerto Rico.

In compliance with that commitment, the Senate over which I preside approved last summer - together with the House of Representatives - the first balanced budget since the adoption of PROMESA; and we have actively participated in the conversations that have been held on the necessary approval of the legislation that will allow the end of the negotiations on the restructuring of the public debt.

For these purposes and on behalf of the legislators elected by the people of Puerto Rico, I proceed to submit the priority points that we understand should be included and/or recognized in the debt adjustment plan.

Their incorporation in the plan could be the key to obtaining the necessary votes for the required legislation and give way to a new path of recovery and progress for the government's financial system.

The agenda that we propose includes ten (10) specific points:

1. Zero cuts to the pensions of retirees with incomes that do not exceed \$ 2,000 or \$2,500 per month and a provision that would restore benefits, according to the fiscal reality of the government of Puerto Rico. Under this language, retirees whose income does not exceed the income selected - \$ 2,000 or \$ 2,500.00 per month - which would represent between 92% or 97% of retirees, would not receive a cut in their pensions; while those retirees whose pensions exceed the limit amount, the Legislature may legislate an income return mechanism or restoration clause that explicitly allows the legal restitution of benefits as permitted by fiscal conditions, including: restitution through increases in availability of cash flows derived from an improvement in tax collection and / or government efficiencies. This restoration of fringe benefits would be achieved through budget reallocations, special revenue funds, statute-promulgated appropriations, or any other funding mechanism provided by law.

2. A fixed allocation of \$500 million in the budget for the University of Puerto Rico for a period of five years, freezing the programmed cuts. In order to mitigate the operational interruptions resulting from the implementation of the cuts ordered by the Fiscal Plans 2021 and 2022, the Legislature proposes to freeze cuts for five consecutive years through allocations from the Commonwealth government to the University of Puerto Rico. This five-year outage freeze would represent an average incremental cost of \$45 million per year; and it would allow the UPR to implement the efficiency measures required by the Fiscal Plans while preserving its capacity to carry out its vital educational mission and ensuring the necessary resources to guarantee the accreditation of all its programs and achieve fair access for those students with financial needs.

3. Creation of the Trust Fund for University Scholarships. The 2021 Fiscal Plan allocated the amount of \$ 47 million to establish an independently administered scholarship fund based on the needs of UPR students. The certified budget for fiscal year 2021-2022 varied this arrangement: it eliminated the Scholarship Fund created under Public Law No. 148-2020, transferred existing funds to the UPR, and authorized the allocation of \$ 116 million in additional funds for the creation of a "UPR Scholarship Foundation." As part of the dialogue and negotiation processes between the AAFAF, the Fiscal Oversight Board, the UPR and the president of the Senate Finance Commission, a tentative agreement has been reached for the creation of an investment trust to preserve the capital that would be awarded for scholarships for UPR students.

This agreement would assign \$ 162 million to the scholarships fund of which only the interests generated by the investment would be disbursed. Therefore, to maximize the number of students in financial need who would benefit from the creation of this fund, the Senate Finance Committee has estimated that some \$ 100 million in additional funds must be added to the trust. We request that said estimate be reviewed and validated by the Board.

4. Protect all contributions to the medical plans of central government employees, avoiding the proposed cuts. This language is intended to prevent the proposed cut on contributions to the

health plans of public employees of the central government for their health insurance from being implemented. This measure would provide adequate medical care service to more than 60,000 workers.

5. Allocate the necessary funds for the municipalities. This language is intended to modify the cuts projected in the fiscal plan for the municipalities, thus ensuring the fiscal stability of the municipalities and the continuity of the essential services they offer. Specifically, the legislature also proposes that the items not used for the payment of municipal debt obligations after the adoption of the adjustment plan, revert to the municipalities.

6. Endorse the creation of the special fund for social equality. This proposal - to be legislated soon - intends to create a permanent fund entrusted with combating poverty and social inequality, giving priority in its allocations to meeting the needs of marginalized communities, the most vulnerable population groups, establishing an integrated plan for the homeless and gradually increasing allocations for non-profit, community self-management and faith-based entities. We request that the Board speak out in support of this initiative.

7. Establish the goal that 100% of the population has medical coverage. The fiscal plan and the debt adjustment plan must contain specific guidelines to guide a new public policy that uses the available resources - after the increase in the Medicaid program items - to establish the legal structure that makes it possible for the government of Puerto Rico to extend medical coverage to some 225,000 citizens who today lack medical plans. We request that the Board speak out in support of this legislation.

8. Creation of the Strategic Investment Fund for Economic Development that injects a continuous investment for a period of five years. For a Plan of Adjustments (POA) to be viable, the appropriate mechanisms must be established to promote the strategic investments necessary for economic development. To achieve this, Puerto Rico needs to address its growing gap in the need for training and skills development in the workforce, the lack of adequate bank financing for small and medium-sized businesses, as well as the need to foster sustainable local wealth. For this reason, the Legislature proposes the creation of a Strategic Investment Fund divided into three categories: (1) investments to close basic skills gaps; (2) small business capitalization programs; and (3) the development of business growth programs through business capitalization. The Senate Finance Committee has estimated that this plan could represent an investment of \$350 million in five years; Therefore, we suggest that the report submitted for this purpose be examined.

9. Establish a mechanism that allows the government of Puerto Rico to advance the terms of payments and debt cancellation. This mechanism that we propose has the sole purpose of authorizing the government of Puerto Rico to refinance the debt payment agreements, with the sole objective of accelerating or settling the agreed payments, in accordance with the future fiscal situation and without affecting the services of the Government of Puerto Rico.

10. Establish a joint working group between the Legislative Branch, the Executive Branch, and the Fiscal Oversight Board with the objective of designing the legislation that is necessary to ensure that, once the public debt restructuring process is concluded, the government Puerto Rico

does not go into debt again without having the economic resources to meet its payment obligations and repeat the improper practices of approving unbalanced budgets or estimates of unrealistic income.

Likewise, this working group will design the eventual transfer of knowledge and methods, including information, systems, and resources to the government of Puerto Rico once the Board is terminated, so that the government may integrate them to future budget and fiscal evaluation processes.

These requirements summarize the objectives of what, in our opinion, the adjustment plan guidelines and future fiscal plans should contain to achieve an effective and orderly recovery of the finances of the government of Puerto Rico.

Finally, I inform you that the Senate of Puerto Rico will be ready to evaluate the content of the debt adjustment plan and the legislation required to finalize the debt renegotiation processes, once the Board that you preside responds to each of the points outlined in this letter.

Thanks for your attention and receive our best wishes.

Cordially,



José Luis Dalmau Santiago